California has made significant gains in reducing the uninsured rate. But, in order to ensure the state can sustain this progress, we must address affordability and underlying costs impacting the price of health coverage. Prescription drug prices are rising at an alarming rate – many with six-figure price tags – but there is little information about the reasons for such high prices. In order to deliver on the promise of affordability, we need to peel back the layers on how prescription drugs are priced.

Drug Prices on the Rise

TOP 100 DRUGS BY SALES

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>26%</td>
</tr>
<tr>
<td>2014</td>
<td>47%</td>
</tr>
</tbody>
</table>

The median price for a TOP 100 drug increased 750% in just 4 years.

Fact Check on Research & Development

It’s commonly believed that high-priced drugs are so expensive because research and development costs are high, but that’s not the full story:

- For every $1 spent on R&D, drug companies spend $19 on marketing and sales.
  - B&H

- 84% of basic R&D is federally funded by NIH through medical centers and research universities.
  - National Science Foundation

- R&D costs are reduced through tax breaks, federal grants, and other incentives.

Unknown Price Drivers

It’s unclear what is driving the price of prescription drugs, and that’s the problem. Some companies have acknowledged that prices are not based on R&D but rather on a drug’s economic and public health value. But what if all drugs were priced based on their value to society?

Should a measles vaccine be priced at $3.5 billion because of its equivalent “value” to society?

- Measles Hospitalization: $14,500
  - Pediatrics

- Two doses of measles vaccine: $40-$120
  - CDC

Cost of MMR Vaccine: $148 million

Cost-savings of MMR Vaccine: $3.5 billion in direct costs (87.6 billion indirect), nationwide

For more information, please go to www.calhealthplans.org

April 2015
Price Matters

Health plans, employers, and government programs are operating in the dark. They can negotiate discounts, but drug companies set initial prices based on what they think the market will bear and what shareholders expect. With thousands of drugs in the pipeline, one-off discounts do not address the underlying problem and often come too little, too late.

Rx Pricing Black Box

Transparency is an important step in understanding costs so that policymakers and other stakeholders can develop solutions to achieve savings. All sectors of the health care industry are engaged in transparency – except one.

AB 463 will Open Up the Black Box

AB 463 requires drug manufacturers to report select cost information for drugs priced above $10,000, including:

- Research & development costs paid in development of qualifying drug
- Marketing & advertising costs
- Costs covered by government sources in development of drug, including subsidies & grants
- Costs for materials & manufacturing
- History of the Average Wholesale Price & Wholesale Acquisition Cost for the drug
- Total profit attributable to the drug

“We’ve all seen skyrocketing prices for specialty drugs without knowing why. They’re contributing to the overall cost of health care, threatening the long-term success of the ACA and they’re putting enormous pressure on state budgets... I think it’s very appropriate to have a conversation about how these drugs are priced.”

DAVID CHIU (D – San Francisco)
California State Assemblymember

CAHP’s RunawayRx campaign highlights the trend of rising prescription drug prices to provide Californians with a full picture of the state of health care costs and to encourage a path toward more sustainable and affordable pricing.

For more information, please go to www.calhealthplans.org